

# Tax Briefing



**Budget 2017**



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## National insurance changes

The headlines following the Budget were dominated by the proposed 2% rise in the main rate of Class 4 national insurance (NIC) which is paid by the self-employed. This appeared to break a Conservative Party manifesto pledge not to raise the rate of income tax, national insurance or VAT in this Parliament, ie before May 2020.

On 15 March Chancellor Hammond announced a U-turn: there won't now be an increase in Class 4 NIC in 2018 or in 2019. This will leave an unexpected gap in the finances which



must be filled. Stand by for some additional tax changes to be announced in the second 2017 Budget to be held in the Autumn.

Class 2 NIC, which is also paid by the self-employed, will be abolished from 6 April 2018, as was announced in the 2016 Budget. Class 2 NIC is levied at a flat rate: £148.20 per year for 2017-18, when profits exceed £6,025.

Class 2 NIC can be paid on a voluntary basis by self-employed people with small profits, in

order to build up an entitlement to the state pension. From 6 April 2018, any voluntary NIC paid to protect state benefit rights will have to be paid as Class 3 NIC, which will cost at least £741 per year (2017-18 rates).

Individuals who attained state pension age before 6 April 2016 can pay voluntary Class 3A NIC to boost their state pension by up to £25 per week. The amount payable depends on the taxpayer's age at the time of the payment. If you want to top-up your state pension, you must make the Class 3A NIC payment before 6 April 2017.

## Tax-free dividends restricted

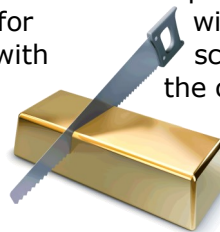
If you take dividends from your own company, you are likely to be affected by the cut in the dividend allowance from £5,000 to £2,000 from 6 April 2018.

Currently, a UK resident individual who receives no more than £5,000 of dividends in the tax year has no tax to pay on that income as the dividend allowance applies a 0% rate to such dividends. Dividends not

covered by the allowance are taxed at 7.5% for a basic rate taxpayer, 32.5% for a higher rate taxpayer and 38.1% for additional rate taxpayers with income over £150,000.

The cut in the allowance will thus cost a basic rate taxpayer £225, a higher rate taxpayer £975, and an additional rate taxpayer £1,143 in extra tax per year, assuming

that each receives at least £5,000 of dividends. Dividends paid on shares contained within an ISA or pension scheme are not affected by the change in the allowance.



If your company pays dividends to other shareholders, perhaps your family members, we should review that dividend strategy.

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## Company car tax becomes complex

It is always good to look ahead when choosing a company car, as the amount of tax the driver has to pay on their ride generally increases each year.

The Government argues that, as the technology for engines improves, the tax system should encourage companies to switch to cars with lower CO<sub>2</sub> emissions. A driver may, however, be stuck with the same car for four years or more, during which the taxable benefit will rise while the value of the car decreases.

This is true for petrol and diesel cars, but from 2020 electric and hybrid cars will be favoured by the tax system.

### Example

Rick, Sally and Fred are each provided with a new company

car on 6 April 2017 which has a list price of £20,000. Rick's car has a petrol engine with CO<sub>2</sub> emissions of 110g/km. Sally opts for a purely electric car. Fred has range anxiety, so he chooses a hybrid petrol/electric car which has a range of 100 miles on its electric power and CO<sub>2</sub> emissions of 50g/km.

The taxable benefits for each car in the next four years are

shown in the table. Sally and Fred will benefit from the change in the structure of company car tax from April 2020. Hybrid cars will be taxed at lower levels if the electric engine has a longer range. A hybrid with a range of 130 miles or more will be taxed as if it were a purely electric car.



Tax year	2017-18	2018-19	2019-20	2020-21
Petrol car % list price:	21%	23%	26%	27%
Rick's taxable benefit:	£4,200	£4,600	£5,200	£5,400
Electric car % list price:	9%	13%	16%	2%
Sally's taxable benefit:	£1,800	£2,600	£3,200	£400
Hybrid % of list price:	9%	13%	16%	5%
Fred's taxable benefit:	£1,800	£2,600	£3,200	£1,000

## Salary sacrifice phased out

Many employers supply a range of benefits such as pension contributions, cars, childcare vouchers or bicycles, with employees permitted to choose between receiving less salary and taking up a benefit, a 'salary sacrifice'.

The Government is concerned that it is missing out on tax in such arrangements, as the benefit received may not attract the same level of tax and national insurance as



the salary given up. So the rules are to change to ensure it gets the same income whether the employee receives a salary or a benefit.

This change will be phased in: it will only impact new salary sacrifice arrangements made from 6 April 2017 onwards. Existing arrangements will be caught if they are modified or renewed after that date, such as when a different company car is provided.

All existing salary sacrifice arrangements involving cars, vans, fuel, accommodation and school fees will come under the new rules from 6 April 2021. Other benefits, such as free car parking, will fall under the new rules from 6 April 2018. Some benefits won't be affected at all, including pension contributions, subsidised meals and medical treatments.

If you offer a salary sacrifice arrangement to your employees, we should discuss how these changes will affect your business.

## Allowances for property and trading

From 6 April 2017, there are two new tax allowances for individuals: £1,000 for trading income and £1,000 for rental income. These allow people who trade to a very small extent or receive small amounts of rent to

receive that income free of tax and not worry about declaring it on a tax return.

The property income allowance applies to

income which doesn't qualify for rent-a-room relief, such as letting a driveway or garage. Where a furnished room is let in the taxpayer's own »



» home, the rent-a-room relief of £7,500 per year should be claimed instead.

Where the income exceeds £1,000, you can choose to deduct the allowance and declare the net income, ignoring any expenses. This method

doesn't allow you to claim a loss from the trade or property letting. Or you can deduct all allowable expenses and declare the net profit or loss.

Restrictions apply where the income is generated by a partnership or from transactions

between a company and its employees. This prevents extraction of further tax-free income from your own company.

The income covered by these allowances is free of tax, but it must be declared for universal credit purposes.

## Business rates revision

The business rates payable for a property are a combination of its rateable value and the applicable multiplier for the area, less any special reliefs.

The multipliers that apply in England for 2017-18 have been reduced from the rates in place for 2016-17. This is to offset the effect of the revaluation of English business properties which takes effect from 1 April 2017.

The revaluation exercise was undertaken in April 2015 and is based on the amount the property could be let for. As

the previous revaluation was undertaken in 2008, just before the recession, some rateable values will have changed significantly.

You should soon receive a notice of your new business rates for 2017-18. You may qualify for business rates relief (not shown in that bill) such as relief for small business premises, small pubs, essential services in a rural area, agricultural or religious buildings, and buildings used by charities or by start-ups in enterprise zones. If the business rates relief hasn't

been given where it is due, you should contact the local authority which issued the rates bill.

If the rateable value of your property seems to be wrong, then you can appeal to the Valuation Office Agency, which is a branch of HMRC. I can help you do that.



## The digital tax revolution

Making Tax Digital (MTD) is coming. Businesses and landlords will be required to submit online a regular summary of income and expenses to HMRC, at least quarterly. The annual tax return will be replaced by a personal digital tax account, which will be updated with information HMRC receives from third parties, such as banks.

This information flow will only be possible if every business uses software which can

communicate directly with HMRC's systems. HMRC has said a free version of this software will be available for some small businesses.

The start date for those businesses to comply with MTD reporting has been pushed back by one year, which will give the software suppliers extra time to work on their free offering. Taxpayers with business or rental income of no more than £10,000 per year will be exempt from the MTD reporting requirements.

All other businesses and landlords will have to start sending regular 'updates' for the first accounting period that starts on or after:

- 6 April 2018 for unincorporated businesses

with turnover exceeding £85,000, excluding large partnerships

- 6 April 2019 for unincorporated businesses with turnover exceeding £10,000 but not £85,000
- 1 April 2019 for all VAT-registered businesses, for VAT-related reports
- 1 April 2020 for all companies to report income and expenses subject to corporation tax and for partnerships with turnover of £10 million or more

There are still many unanswered questions about the practicalities of MTD, but it *is* happening. Let's talk about how your accounting system can be adapted to cope.



## VAT changes

The compulsory VAT registration threshold rises to £85,000 and the deregistration threshold to £83,000, both on 1 April 2017.

Most businesses which provide services won't find it beneficial to use the VAT flat rate scheme (FRS) from April 2017. HMRC has now stipulated even tighter requirements for FRS users: goods you buy to use in your business may not be 'relevant goods' under the revised rules. These exclude:

- vehicle costs, unless your business is in the transport sector and you run a vehicle
- food or drink to be consumed by you or your staff
- capital goods of any value, such as computers, phones and office equipment
- goods for resale, leasing, letting or hiring out unless your main business activity includes such activities

- goods to be given away as promotional items or gifts

Vehicle repairers will be caught as the motor parts they buy won't pass the test. Traders who travel to customers, such as mobile hairdressers or IT contractors, will also find the FRS no longer suits them.

Please talk to me if you are currently using the FRS so we can discuss the best approach for your business.

## Tax Data 2017-18

All figures are annual amounts

### Allowances

Personal allowance	£11,500
Tapered on income above £100,000	
Transferable to spouse/ civil partner taxed at 20%	£1,150
Trading income	£1,000
Property income	£1,000
Rent-a-room	£7,500

### Tax on earnings

Earnings to £33,500	20%
£33,501 to £150,000	40%
Over £150,000	45%

### Tax on earnings for Scottish residents

Earnings to £31,500	20%
£31,501 to £150,000	40%
Over £150,000	45%

### Tax on interest

First £5,000	0%
20% taxpayers	£1,000 @ 0%
40% taxpayers	£500 @ 0%
Balance taxed at marginal rates	

### Tax on dividends

First £5,000	0%
Balance in band to £33,500	7.5%
£33,501 to £150,000	32.5%
Over £150,000	38.1%

### National insurance

<i>Class 1 employers</i>	13.8% over £8,164
Under 21 (apprentices 25)	0% to £45,000
<i>Class 1 employees</i>	12% on £8,164 to £45,000; 2% above £45,000
<i>Class 4 self-employed</i>	9% on £8,164 to £45,000; 2% above £45,000
<i>Class 2 self-employed</i>	£148.20
Not payable if profits under	£6,025
<i>Class 3 voluntary</i>	£741

### Employment allowance

Set against employer's Class 1 NIC	£3,000
(Not available for one-person companies)	

### Pension contributions

No earnings	£3,600 gross
Otherwise	100% of earnings
Annual contribution caps:	
No pension taken	£40,000
Some pension taken	£4,000
Adjusted income over £150,000:	
annual cap tapered to	£10,000
Lifetime pension fund cap	£1m

### Corporation tax

All profits	19%
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### VAT

Registration turnover	£85,000
Deregistration turnover	£83,000
Standard rate	20%
Reduced rate	5%

### Inheritance tax

Nil rate band	£325,000
Excess taxed at	40%
Where 10% left to charity	36%

### Capital gains tax

Within basic tax rate	10%
Higher tax bands	20%
Surcharge for residential property and carried interest	8%
Entrepreneurs' relief	10%
Annual exempt amount	£11,300

